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International tax avoidance identified by FDI positions and some solutions

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Study commissioned by the European Parliament

Introduction

Tax avoidance and tax evasion have a strong impact on government revenues and fiscal fairness towards taxpayers

Many policy measures have been taken:

- **BEPS 1.0, Pillar 2 of BEPS 2.0, and DAC regulation**

EU tax observatory concludes that corporate tax avoidance is increasing

- **Size of the shifted corporate income tax base rose from 600 bln US$ in 2015 to 1000 bln in 2019**

Aim of this report

Find indicators that signal that countries do well or do not well in the fight against tax avoidance

Purpose is to look at macroeconomic indicators related to international income flows

These flows may show anomalies that could signal possible tax avoidance (but not necessarily so)

Why tracking FDI?

International transactions are dividends, interest payments, royalties and management fees

No comprehensive databases at the global level

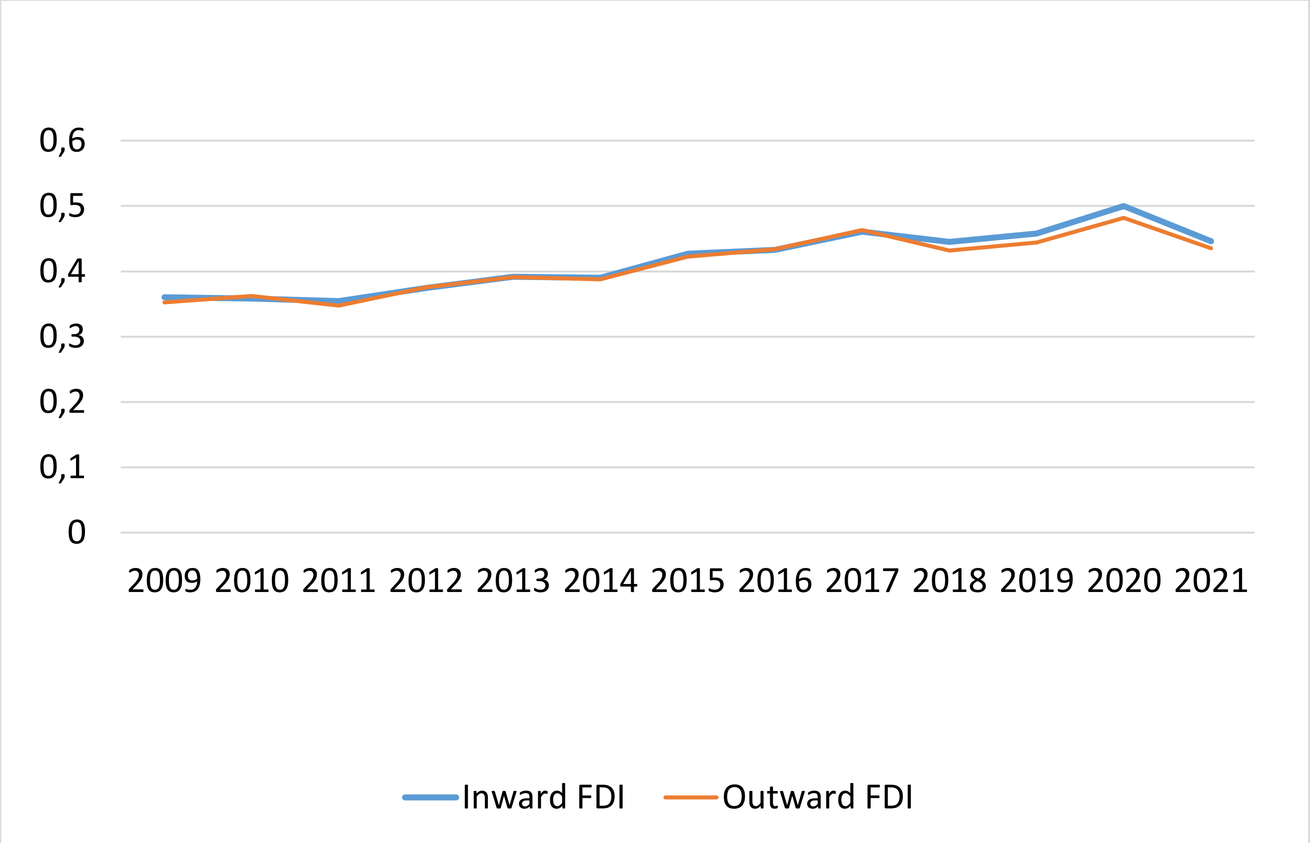
Dividend and interest payments are the return on foreign investment such as participation and loans

For FDI global databases do exist

Global FDI/GDP ratio between 2009 - 2021

Increasing trend until 2020 due to:

- **Globalization**
- **Digitalization**
- **Tax avoidance**
- **Double counting**



The share of tax havens in global FDI

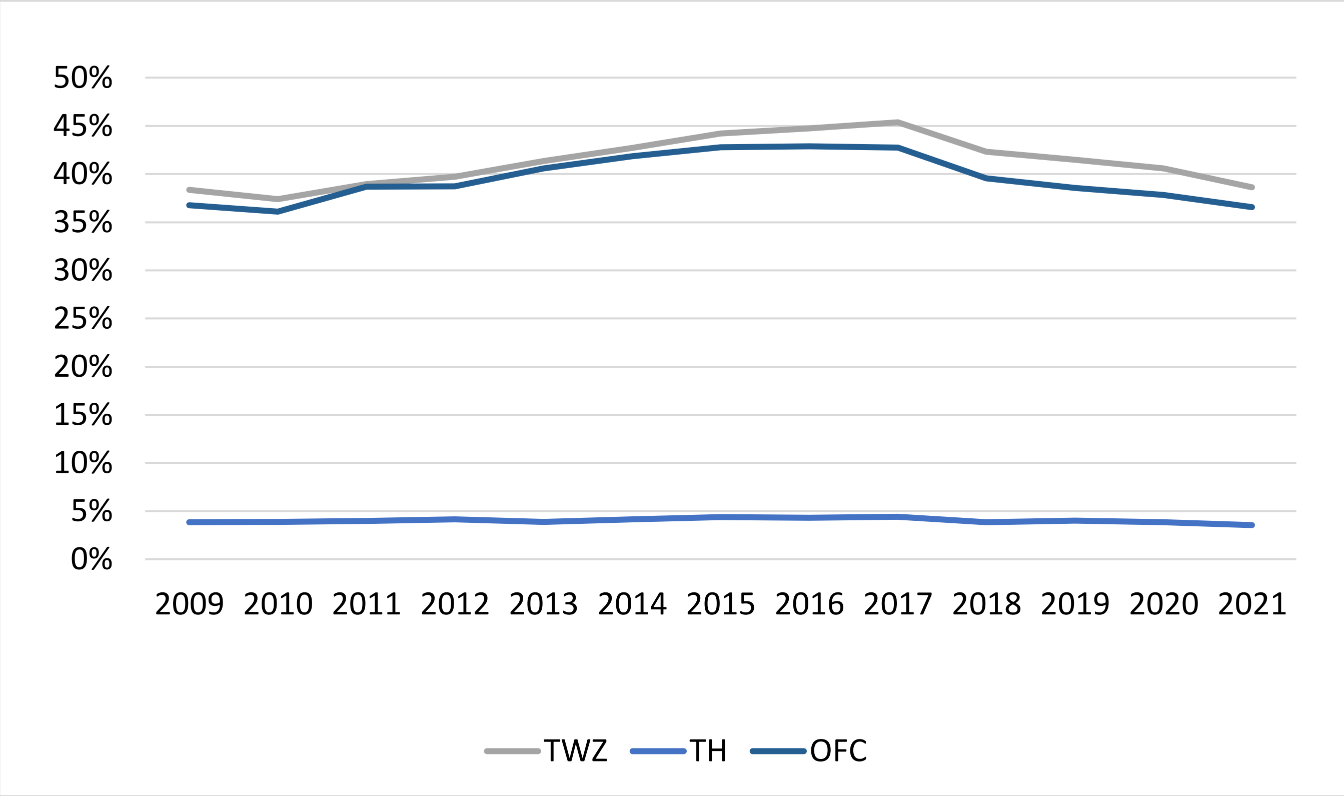
Share of tax havens increases to 45% in 2017

Mainly due to 6 OFC countries: CHE, HKG, IRE, LUX, NLD and SGP

OFC=conduit=hub

GDP-share is only 3.4/ 4.4%-points

Tax havens have significantly higher FDI shares

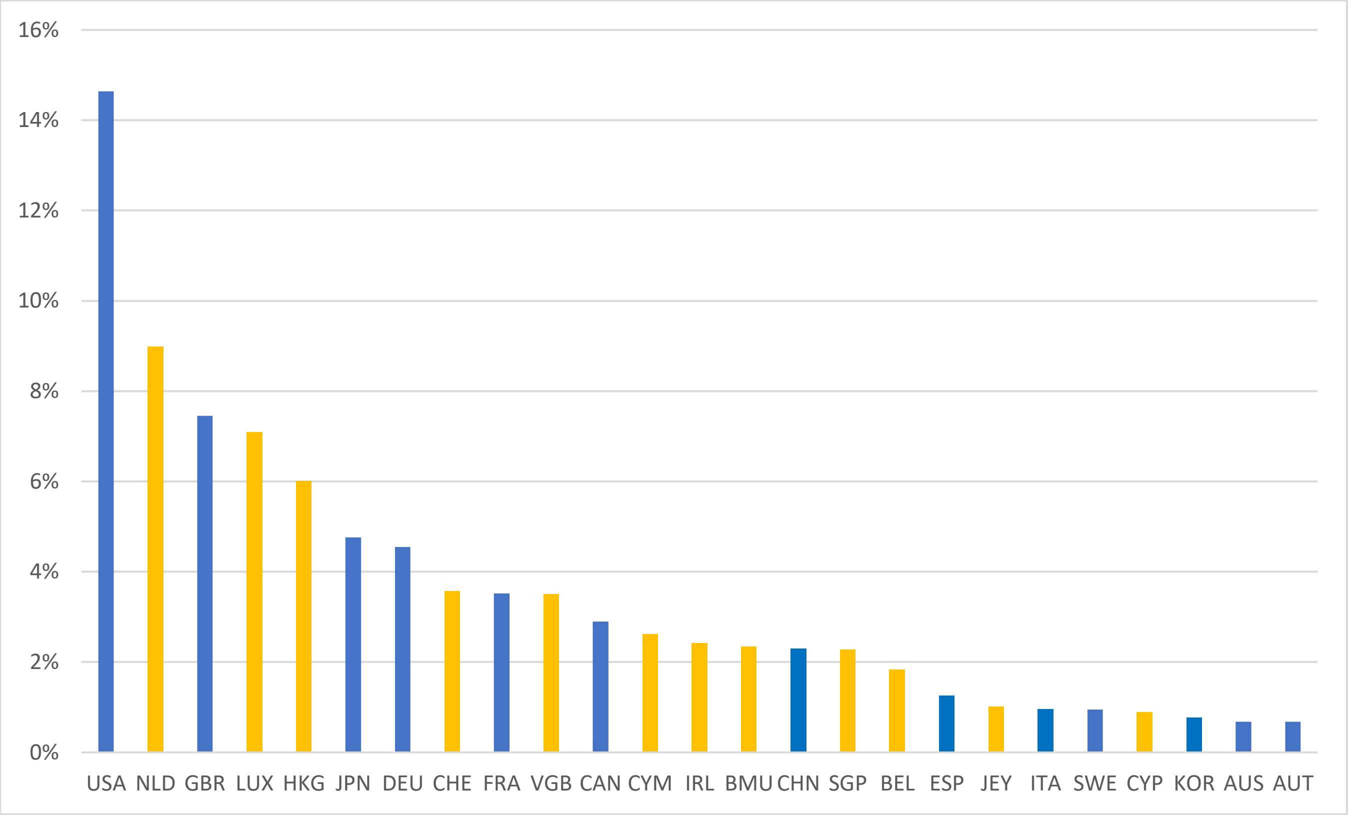


Top25 countries with largest FDI stocks in 2021

MNEs have invested 40 thousand billion US$ abroad in 2021

12 tax havens in top 25: Caribbean, European

Orange is tax haven



EU tax havens

Global FDI/GDP ratio is about 42%. For EU it is 81% (also intra FDI) and for EU tax havens it is 380%

OECD secretariat defines investment hubs as jurisdictions with an inward FDI / GDP ratio above 150%

EU tax havens based on TWZ list: LUX, CYP, NLD, MLT, IRE, BEL

- BEL is border case

EU and traditional tax havens

Major differences between traditional tax havens and conduit countries (incl. the EU ones)

- **Often no low-tax jurisdictions, apart on foreign profits**
- **CIT rates comparable to other EU countries**
- **Many tax and investment treaties**
- **Not CFC regulation affected**
- **No explicit tax haven policies; tax policies are often intertwined with attractive business climate policies**

Comparison EU havens and non-havens

Comparable CIT rates (statutory and effective)
Comparable withholding tax rates
Similar number of bilateral tax and investment treaties
Cooperative in implementing international tax policies

More harmful tax policies in the past
On general lower withholding taxes on royalties
Higher CIT revenues (due to shifted profits)
Less strict and lately introduced CFC rules

Conclusions on comparison

There are differences in taxation, but no systematic differences between specific tax policies, except for CFC rules. Also hard to relate directly to FDI/GDP ratio

The averages hides large differences between individual EU tax havens, suggesting different (tax) policy mixes

Suggests specific examinations of the rules by country

Possible policy remedies

BEFIT with a common (harmonized) tax base

Effective ATAD-3 directive

Common withholding taxes in the EU

More transparency (expand DAC and CbCR)

Implementation of global minimum tax could help

Thank you for your attention

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Study can be found here